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STATE FOR OES/EGC GTHOMPSON
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SUBJECT: BRAZIL BIOFUEL UPDATE, MARCH 2007

MEXICO SEEKS STRATEGIC PARTNERSHIP WITH BRAZILIAN ETHANOL PRODUCERS

¶1. The Government of Mexico is sending representatives to Brazil on March 28, 2007, to propose a partnership on ethanol. According to media reports, Mexico will offer the Brazilian ethanol producers fiscal incentives to attract companies to Mexico. The added benefit, of course, would be the nearly tariff-free access to the Canadian market.

EUROPEAN UNION ALSO WANTS COMMERCIAL AGREEMENT

¶2. The European Union (EU) is interested in signing a commercial agreement with the Government of Brazil according to Brazil's newspaper Folha de Sao Paulo. Negotiations are scheduled for May 2, 2007. The partnership is scheduled to be announced in Brussels, Belgium on July 5, 2007 at an International Biofuels Conference, where President Lula will be the keynote speaker.

BRAZIL SIGNS BIOFUEL AGREEMENT WITH JAMAICA

¶3. The governments of Brazil and Jamaica signed a Memorandum of Understanding, on February 15, 2007, to provide Brazilian technology for the production of sugar and ethanol in that nation. According to sources from the Ministry of Foreign Affairs, this is the first step for Brazil to advance similar agreements with other Caribbean nations, taking advantage of their tariff-free trade regime.

ETHANOL RECORD PRODUCTION

¶4. Agro Energy and Alcohol Director for the Ministry of Agriculture, Angelo Bressan, said estimates for Brazil's ethanol for the 2007/2008 season are 12% higher than last year. Due to the optimistic scenario, the Government of Brazil is considering raising the ethanol mix from 23% to 25% during next season.

BUSES IN SAO PAULO TO RUN ON 30% BIODIESEL MIX

¶5. Over 25% of the fleet of seven thousand buses owned by Viacao Itaim Paulista in Sao Paulo started running on a new 30% biodiesel mix in January, 2007. The new mix, B30, is made of biodiesel, oil diesel and ethanol. The new fuel is a result of a partnership between Petrobras and the Brazilian National Institute of Technology (INT), which will be responsible for monitoring the efficiency of the new fuel during the initial testing period.

USING ETHANOL TO GENERATE ELECTRICITY

¶6. The Institute for Energy and Nuclear Research (IPEN) is developing a fuel cell that uses ethanol to generate energy without the need of any other device. The cell is called a Solid Oxide Fuel Cell (SOFC) and is considered by the Institute as a model for

electricity generation for the future. The Institute has also used methane gas, emitted into the atmosphere as waste decomposes, to produce fuel cells. Test results will be presented in June 2007 during an international symposium in Japan.

BRAZIL MAY PRODUCE ETHANOL FROM SWEET POTATOES

17. Brazilian Agricultural Research Corporation (EMBRAPA) is analyzing the viability of producing ethanol from sweet potatoes. The new technology is still in early testing stages but could supplement ethanol from sugarcane.

SOBEL